

Message Text

CONFIDENTIAL

PAGE 01 DAMASC 04859 01 OF 02 221327Z
ACTION NEA-07

INFO OCT-01 SS-14 ISO-00 EB-04 TRSE-00 INR-05 SP-02
OMB-01 NSC-05 CIAE-00 NSAE-00 L-01 /040 W
-----073829 221409Z /64
R 221148Z AUG 78
FM AMEMBASSY DAMASCUS
TO SECSTATE WASHDC 9327

C O N F I D E N T I A L SECTION 01 OF 02 DAMASCUS 04859

LIMDIS

E.O.11652: GDS
TAGS: EGEN, EFIN, EAID, SY
SUBJECT: PRELIMINARY FINDINGS IMF TEAM IN SYRIA

1. EMBASSY HAS RECEIVED BOOTLEG COPY OF MINUTES OF IMF
TEAM MEETING WITH MINISTER OF ECONOMY JULY 18, 1978.
COPIES BEING POUCHED NEA/ARN FOR APPROPRIATE DISTRIBUTION.
REQUEST INFO NOT BE SHARED OUTSIDE USG.

2. IMF NOTES HIGH SYRIAN GROWTH RATE SINCE 1974 BASED
ON EXPANDED FOREIGN AID. REAL GDP HAS RISEN BY 50
PERCENT, NOTWITHSTANDING MILITARY BURDEN AND AREA
POLITICAL UNCERTAINTIES. HOWEVER, HIGH GROWTH RATES WERE
ACHIEVED THROUGH EXPANSIONARY FISCAL POLICIES FINANCED
BY FOREIGN AID AND WERE NOT SELF-SUSTAINABLE. AID INFLOWS
PERMITTED RAPID EXPANSION OF DEMAND NOT MATCHED BY IN-
CREASED DOMESTIC PRODUCTION. REAL GDP GROWTH DECLINED
STEADILY SINCE 1974 PEAK AND TURNED NEGATIVE IN 1977.
DECLINE IN AGRICULTURAL PRODUCTION DUE TO BAD WEATHER
ONLY PARTIALLY TO BLAME. SIMULTANEOUSLY, CONSUMPTION AS
PERCENTAGE OF GDP HAS RISEN FROM 90 PERCENT IN 1973 TO
MORE THAN 100 PERCENT IN 1977 WITH FOREIGN AID FINANCING
MUCH CONSUMPTION RATHER THAN INVESTMENT. ECONOMY MUST
RE-ORIENT, RESTRAIN CONSUMPTION, AND INCREASE PRODUCTIVE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 DAMASC 04859 01 OF 02 221327Z

INVESTMENT. GIVEN ITS DOMINANCE OF ECONOMY, PUBLIC
SECTOR MUST BEAR WEIGHT OF THIS RE-ORIENTATION.

3. FISCAL POLICY: BUDGET DEFICITS INCREASED FROM SEVEN
PERCENT OF GDP IN 1973 TO 21 PERCENT IN 1977 AND PRO-
JECTED 25 PERCENT IN 1978. TOTAL BUDGET RECEIPTS
(INCLUDING AID AND DOMESTIC BORROWING) WILL, FOR FIRST

TIME, FALL SHORT OF TOTAL EXPENDITURES. URGENT NEED FOR DECISIVE ACTION TO RAISE REVENUES. TAX COLLECTION IS STAGNANT. ATTENTION ALSO NEEDS TO BE FOCUSED ON RELATIONSHIP OF PUBLIC SECTOR AND BUDGET. PUBLIC SECTOR MUST RATIONALIZE PRICING, IMPROVE MANAGEMENT AND FINANCE ITS OWN INVESTMENTS. EXPENDITURES MUST BE CONTROLLED. SUBSIDY PROGRAMS MUST BE REVIEWED AND COSTS REDUCED. LITTLE CAN BE DONE FOR 1978, BUT HOPE GROUNDWORK CAN BE LAID FOR 1979.

4. MONETARY POLICY: MONETARY POLICY MUST BE DEVELOPED. MONETARY CREDITS MUST BE DEVELOPED TO MOBILIZE FINANCIAL RESOURCES. OFFICIAL REVIEW OF INTEREST RATES MUST CONTINUE AND BE IMPLEMENTED. HIGH RATE OF MONETARY EXPANSION MUST BE REVERSED. IT HAS HAD ADVERSE EFFECT ON CURRENT ACCOUNT BALANCE OF PAYMENTS, WHILE EXPORTS ARE FINANCING A STEADILY SMALLER PERCENTAGE OF SYRIA'S IMPORTS. 1978 PROJECTIONS SHOW CURRENT ACCOUNT DEFICIT OF LS 7 BILLION AND OVERALL PAYMENTS DEFICIT OF LS 2.5 BILLION. URGENT REVIEW PERFORMANCE OF VARIOUS EXPORT SECTORS AND IMPORT DEMANDS IS ESSENTIAL. DEMAND MANAGEMENT POLICIES MUST BE ORIENTED TOWARD ACHIEVING GREATER STRENGTH IN BALANCE OF PAYMENTS AND MUST INCLUDE REALISTIC PRICING POLICIES (I.E., END TO SUBSIDIES OF IMPORTED GOODS).

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 DAMASC 04859 01 OF 02 221327Z

5. TEAM NOTES SEVERE UNDERLYING IMBALANCES IN ECONOMY. MOST URGENT NEED FOR THOROUGH REVIEW OF PUBLIC SECTOR FINANCES. TEAM RECOGNIZES GOVT AWARE OF THIS PROBLEM AND COMMENDS FISCAL DISCIPLINARY MEASURES TAKEN IN 1977. TEAM ALSO RECOGNIZES MEASURES REQUIRE TIME AND WELCOMES SYRIAN INTEREST IN IMF EXTENDED CREDIT FACILITY. PROGRAM OF REFORM REQUIRED IN SUPPORT OF SUCH A REQUEST WOULD PROVIDE EXCELLENT OPPORTUNITY REDRESS UNDERLYING STRUCTURAL IMBALANCES.

6. GOVT RESPONSE (BY MINECONOMY) AGREES IN GENERAL PRINCIPLES WITH ASSESSMENT AND RECOMMENDATIONS. HOWEVER, GOVT HAS RESERVATIONS ON FACTS PRESENTED: (1) NATIONAL ACCOUNTS NOT AS BAD AS APPEAR BECAUSE SL 3 BILLION OF IMPORTS WERE FINANCED BY PRIVATE REMITTANCES (I.E., THE BLACK MARKET); AND (2) IMF TEAM HAD FAILED TO GIVE ADEQUATE EMPHASIS TO INCREASE IN PRODUCTIVE CAPACITY NOW COMING INTO OPERATION AS RESULT OF HIGH-LEVEL INVESTMENT IN LAST FOUR YEARS. GOVT AGREES DISPROPORTIONATE SHARE OF RESOURCES DEVOTED TO CONSUMPTION AND ASKS IMF TECHNICAL ASSISTANCE IN FIELDS OF MOBILIZING DOMESTIC SAVINGS AND EFFECTIVE UTILIZATION OF HIGH LEVELS OF

PRIVATE REMITTANCES.

7. COMMENT: ACTUAL LANGUAGE USED IN IMF REPORT WAS MORE POLITE, BUT THIS IS ESSENCE OF IT. IN PRINCIPLE THIS IMF ASSESSMENT TRACKS WITH EMBASSY/USAID ASSESSMENT OF THE STATE OF SYRIAN ECONOMY. WE DO NOT AGREE CRISIS IS HERE NOW. MINECON IMADI'S STATEMENT THAT BLACK MARKET TRANS-ACTIONS ARE LARGE ENOUGH TO COVER CURRENT ACCOUNT DEFICIT

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 DAMASC 04859 02 OF 02 221316Z
ACTION NEA-07

INFO OCT-01 SS-14 ISO-00 EB-04 TRSE-00 INR-05 SP-02
OMB-01 NSC-05 CIAE-00 NSAE-00 L-01 /040 W
-----073784 221409Z /64

R 221148Z AUG 78
FM AMEMBASSY DAMASCUS
TO SECSTATE WASHDC 9328

C O N F I D E N T I A L SECTION 02 OF 02 DAMASCUS 04859

LIMDIS

FITS WITH OUR REPORTING. WE ALSO AGREE WITH IMADI THAT INVESTMENTS IN INDUSTRY NOW COMING ON LINE HOLD POTENTIAL TO INCREASE DOMESTIC SUPPLIES MEET MUCH OF LOCAL DEMAND. HOWEVER, EXPERIENCE WITH ILL-MANAGED PUBLIC SECTOR -- WHICH IS NOW OPERATING AT SOMETHING LIKE 30 PERCENT OF CAPACITY -- DOES NOT MAKE US OPTIMISTIC THAT IT WILL ACTUALLY BE ABLE TO DO SO. ON THE NEGATIVE SIDE, MUCH OF LOCAL DEMAND IS MADE UP FOR BY SMUGGLING AND BLACK MARKET OPERATIONS WHICH DO NOT APPEAR IN NATIONAL ACCOUNTS. IF CURRENT SERIES OF ANTI-BUSINESS MEASURES ARE NOT AMELIORATED, WE EXPECT BOTH ILLEGAL SECTORS TO INCREASE THEIR SHARE OF THE MARKET A GREAT DEAL. IMADI, WE IMAGINE, WOULD WELCOME RESORT TO IMF EXTENDED CREDIT FACILITY BECAUSE CONDITIONS DEMANDED BY FUND WOULD QUICKLY FORCE GOVERNMENT TO FACE UP TO FACT THAT SYRIAN PUBLIC SECTOR IS A CANCER IN NEED OF DRASTIC SURGERY. THE ONLY OTHER OPTION TO GOVT WOULD BE TO CUT BACK

SHARPLY ON DOMESTIC CONSUMPTION -- A VERY DANGEROUS POLITICAL MOVE. SEELYE

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REPORTS, SURVEYS, FOREIGN ASSISTANCE
Control Number: n/a
Copy: SINGLE
Draft Date: 22 aug 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978DAMASC04859
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780343-0136
Format: TEL
From: DAMASCUS
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780839/aaaabgbg.tel
Line Count: 168
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: bb83635f-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 21 jul 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1665105
Secure: OPEN
Status: NATIVE
Subject: PRELIMINARY FINDINGS IMF TEAM IN SYRIA
TAGS: EGEN, EFIN, EAID, SY, IMF
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/bb83635f-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014